

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	March	YTD	1 Year	3 Year	
Yen / USD	111.80	The Prospect Japan Fund Limited	-0.77	4.03	-0.77	-4.44	
NAV (USD)	1.29	MSCI Japan Small Cap Index	-0.07	6.93	16.99	36.28	
Price (USD)	1.13	The NAV is published in the 'Other Offshore Funds' column of the Financial Times. The NAV and Price are located on Bloomberg page PJF LN. The NAV and Indicated Prices are also listed on Bloomberg page LCFR and Reuters page LCFR07.					
Premium/ Discount %	-12.60						

The Prospect Japan Fund Limited inception date is 20 December 1994. The above performance of the Fund is net of fees and expenses and includes reinvestment of dividends and capital gains. (Source: Prospect Asset Management, Inc.) Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only. The MSCI Developed Markets Small Cap Indices offer an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular developed market. The indices include Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS®). (Source: Bloomberg)

The Fund retreated 0.77% (USD) during the month, underperforming the MSCI Japan Small Cap index's 0.07% MoM USD decline.

Weakness during the month came from holdings in Prospect Co., Ltd (3528) and Maruhachi Warehouse (9313). Prospect Co., Ltd. retreated during the month on delayed announcement of details regarding a possible offer for the entire issued capital of the Prospect Japan Fund (PJF LN) and a Securities and Exchange Surveillance Commission (SESC) recommendation of a JPY 3.3 million penalty for alleged ordinance violation at a subsidiary company, see attached company press release. Maruhachi Warehouse, a warehousing and logistics company, retreated ahead of Q1 results announcement in early April.

Strength during the month came from holdings in Shaklee Global Group (8205), a seller of nutrition and personal care products. The company saw its shares rebound from near four-year lows following last month's disappointing Q3 results announcement.

Realignment of the regional bank space continued with reports that Hokuetsu Bank (8325) and Daishi Bank (8324), both based in northwestern Niigata Prefecture, will integrate their operations. The basic agreement is expected to be completed in April with merger under a holding company as early as Spring 2018. A Nikkei article points the potential of this merger opening the door for further regional bank moves in the Tohoku-Hokuriku region as banks may review their strategies.

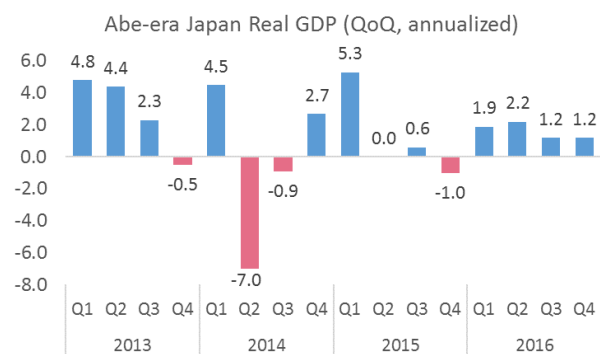
Towards month's end, Sumitomo Mitsui Trust Holdings (8309), Mizuho Financial Group (8411), Resona Bank (8308), and Dai-ichi Life Insurance (8750) announced an agreement to merge Japan Trustee Services Bank and Trust & Custody Services Bank, with final agreement expected in H2 2017.

In December 2015 the Fund acquired 1,440 Stock Acquisition Rights ("SARs") at a total cost of Yen 288 million. Each SAR gives the right to acquire 100,000 ordinary shares in Prospect Co., Ltd at a price of Yen 54 per share. The SARs are exercisable until 20 December 2020. The SARs have been held at cost in the NAV reports since December 2015 and are not revalued. For the purposes of preparing the annual Financial Statements in line with IFRS, the SARs have to be 'fair valued' but for regular NAV reporting Prospect Asset Management believes the value at cost is more helpful to the investor. A total of 90

SARs have been converted leaving 1,350 at 31 December 2016. None have been converted in 2017.

Initial positivity following a generally well received speech before a joint-session of Congress by US President Donald Trump, was pared during the month following North Korea's provocative firing of four ballistic missiles in the sea near Japan and mounting political missteps by the Trump administration that dampen the prospects that his pro-business economic agenda can be smoothly enacted. The Yen strengthened during the month, due to the perception that the pace of rate normalization by the Fed may be slower than previously expected.

Final Q4 GDP was revised up to an annualized +1.2%, outperforming initial estimates of +1.0%, and below the consensus estimates of +1.5% growth. This marks the first consecutive four quarters of expansion in over 3 years. The primary reasons for the outperformance were stronger than initially expected business spending (+2.0% QoQ vs preliminary +0.9% figure), while personal consumption was unchanged.



Corporate profits gained 16.9% YoY in the three months through December 2016, the strongest quarterly gain since Q2 2015. Capital Spending rose 3.8% YoY in the same period, outperforming consensus estimates for a 0.8% YoY gain.

To the ongoing frustration of Abenomics adherents, higher corporate profits continues to show limited impact on Real Cash Earnings, which remained unchanged YoY in January, versus a +0.1% YoY performance in December.

Overall Household Spending declined 3.8% YoY in February, underperforming the consensus estimate of a -1.7% YoY. This marks the twelfth consecutive month of YoY declines. The labor market remains tight, with unemployment for February dropping to a 20-year low of 2.8%, and the jobs-to-applicant ratio unchanged at 1.43x.

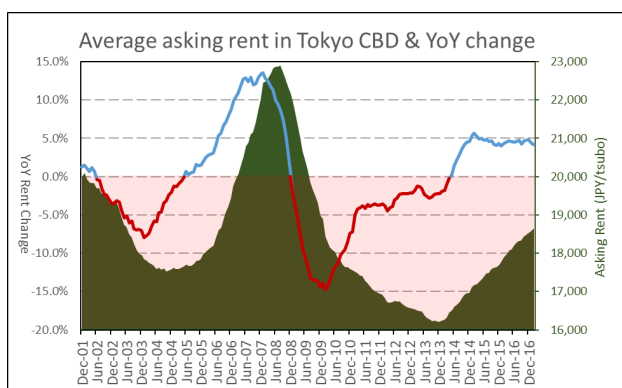
Rising energy costs led to a 0.2% YoY rise in National Core CPI (excluding fresh food) for the month of February, in line with consensus estimates, and improved from the previous month's 0.1% reading. This marks the first consecutive monthly rise since December 2015.

February exports gained 11.3% YoY, beating consensus estimates for a 10.1% YoY increase, and marking the strongest imports rose 1.2% YoY, in line with consensus estimates for a 1.3% YoY increase. Japan reported a February trade surplus of JPY 813 billion, slightly above consensus estimate of JPY 807 billion.

The Bank of Japan (BoJ) left its core policy unchanged during the month, while announcing a scheduled technical adjustment to its negative interest rate policy (NIRP), increasing the proportion of current account funds that will be considered a part of the "macro add-on balance" not subject to negative policy rates. The benchmark ratio was set at 17% (up from 13%) for the March through May 2017 period. This marks the fifth consecutive increase since NIRP was announced in February 2016. The BoJ estimates the "policy rate balance" (subject to negative rates) for the period will range from JPY 10 to 20 trillion, unchanged from the last three-month period. The next benchmark ratio period (June to August 2017) will be announced on 9 June 2017.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) fell 4 basis points (bps) to 3.70% in February. Year-on-year, the vacancy rate has fallen 34 bps.

Miki Shoji reports that average office rents in the CBD rose 4.2% YoY, the 34th consecutive monthly gain. Rent levels are now 15.1% above the December 2013 lows, while remaining 18.5% below the 2008 highs when vacancies were at similar levels.



1 tsubo = 3.306 sqm

While the Fund does not currently hold any J-REITs, they serve as a bellwether for the overall Japanese real estate market, and the BoJ's commitment to asset reflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 12.0 billion in J-REIT units, the largest monthly purchase since May 2016. This brings total purchases to date to JPY 380.7 billion.

Sector Weightings

Banks	54.0
Storage/Warehousing	9.0
Retail	8.8
Real Estate	5.7
Engineering & Construction	2.4
REITs	0
Total*	79.9
No of Positions	9

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.7
8562	FUKUSHIMA BANK LTD/THE	24.9
9313	MARUHACHI WAREHOUSE CO LTD	9.0
8205	SHAKLEE GLOBAL GROUP INC	8.8
3528	PROSPECT CO LTD	5.7
8521	NAGANO BANK LTD/THE	3.4
1921	TOMOE CORP	2.4

Percentage weightings are Prospect Asset Management's internal calculations and have not been reconciled by the administrator.

*Results of calculations as presented may not be exact due to rounding and precision of stored values.

Note: As of 31 March 2017, of the Fund, Prospect Co. Ltd (3528) is 3.6% (not including the SARs), Maruhachi Warehouse (9313) is 9.0% and Shaklee Global Group (8205) is 8.8%. Hokuetsu Bank (8325), Daishi Bank (8324), Sumitomo Mitsui Trust Holdings (8309), Mizuho Financial Group (8411), Resona Bank (8308), and Dai-ichi Life Insurance (8750) are not holdings in the Fund.

(Sources: Bloomberg, Nikkei, Yomiuri, Miki Shoji, Bank of Japan, CLSA, Nomura)

Important Legal Information – Please Read

This information is for use by investment professionals only. Past performance is no indication of future results. This document does not constitute an offer of shares of The Prospect Japan Fund Limited nor the solicitation of an offer to buy such shares. This document should not be forwarded or distributed to any other person except with the prior written consent of Prospect Asset Management Inc (PAMI).

The Prospect Japan Fund Limited “Company” is a closed-end investment company incorporated in Guernsey and listed on the London Stock Exchange. The Company's investment objective is to achieve long-term capital appreciation from a portfolio of securities primarily of smaller Japanese companies listed or traded on Japanese Stock Markets.

There are risks involved with investing, including possible loss of principal. In addition to the normal risks associated with investing, narrowly focused investments, investments in smaller companies, illiquid investments and investments in a single country typically exhibit higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

NAV performance calculations are provided by PAMI and are un-audited. Fund price and index performance calculations are obtained from Bloomberg and are as of the end of the month. Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only. The investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Additional information regarding policies for calculation and reporting returns is available upon request.

The Board of The Prospect Japan Fund Limited decided that the PJF should become a member of the AIC (The Association of Investment Companies) in 2005. The AIC only accepts valuations where the underlying assets are valued on a 'Fair' basis, which in the case of PJF, means on a bid basis (per the AIC). Upon The Prospect Japan Fund Limited's Board approval, the Fund's administrator Northern Trust made a change to the pricing methodology in February 2006, whereby underlying assets in the Fund are valued using the 'last bid price.' Consequently, the Fund's Net Asset Value and performance from February 2006 reflects the change in this pricing methodology. In addition, in newsletters from February to September 2006, as a result of the new pricing methodology, Prospect had been calculating a performance based on an un-rounded Net Asset Value. In October 2006, Prospect made a decision to calculate performance based on a Net Asset Value rounded to the nearest hundredth. Therefore, the monthly performance from February to September was modified to reflect this change. The performance from October 2006 and going forward will incorporate this change.

Prospect Asset Management Inc. is registered as an investment adviser under the United States Investment Advisers Act of 1940, as amended, with Securities and Exchange Commission number 801-47749. The company specializes in investment in Japanese equities and real estate and seeks investments offering what PAMI considers above average earnings while trading at reasonable valuations.



March 22, 2017

Company name: Prospect Co., Ltd.

President and Representative Director: Curtis Freeze

(Ticker: 3528 TSE 2nd Section)

Contact and Representative Director: Masato Tabata

(Tel: 03-3470-8411)

Regarding the recommendation of an administrative monetary penalty payment order by the Securities and Exchange Surveillance Commission and our company's opinion

The Securities and Exchange Surveillance Committee ("SESC") today announced that they have recognized that there was a violation (insider trading) of the Financial Instruments and Exchange Act against Prospect Asset Management, Inc. ("PAMI"), a US subsidiary of Prospect Co., Ltd., and have made a recommendation to the Prime Minister and the Commissioner of the Financial Services Agency ("FSA") that an administrative monetary penalty payment order be issued pursuant to Article 20(1) of the Act for Establishment of the FSA.

Although we believe that the SESC's recognized complaint in the recommendation differs from the fact, we would like to sincerely apologize for the inconvenience caused to our shareholders, business partners and all the affiliated parties through this announcement.

1 The SESC's recommendation

(1) summary of SESC's findings

The summary by the SESC of the violation of laws in relation to their recommendation is as follows: During PAMI's investment officer's negotiation to conclude a contract with Tri-Stage Inc. ("Tri-Stage"), with the knowledge of a material fact concerning a decision by Tri-Stage on acquiring its own shares, PAMI, on behalf of the assets of the Shareholders' Consensus Fund ("SCF"), has made a purchase of 36,500 shares of Tri-Stage, at a total value of 74,767,600 Japanese yen during the period from September 25, 2015 to October 19, 2015, before the public announcement of the material fact on October 20, 2015 was made. Of the total transacted value, as of October 2015, 66.6746% is equivalent

to the contribution ratio of its parent and related companies of PAMI and was purchased on PAMI's own account and the rest was purchased on the accounts by other investors of SCF.

(2) the amount of administrative monetary penalty

The amount of administrative monetary penalty in relation to the violation of the Financial Instruments and Exchange Act is 3,290,000 yen.

2 Our company's opinion

The SESC's recommendation is based on the premise that, during PAMI's negotiation to conclude a contract with Tri-Stage, PAMI had knowledge of a material fact regarding Tri-Stage's decision to purchase their own shares which was decided by the organization of Tri-Stage that decides the execution of its business. However, there is no evidence that PAMI's investment officer had received such notification from Tri-Stage on its buyback decision at the time in question by the SESC.

Therefore, the SESC's conclusion differs from the fact and we believe that the judgment of the recommendation is inaccurate.

We believe that our point of view will become clear in the upcoming deliberation by the FSA, and the administrative monetary penalty payment order will be dismissed.